

Message Text

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44

ACTION ARA-20

INFO OCT-01 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-10 PA-03 RSC-01 AID-20 CIEP-02 SS-20 STR-08

TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 OMB-01 DRC-01

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R 112201Z OCT 73

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 1207

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E.O. 11652: N/A

TAGS: EGEN EFIN EAID BL

SUBJ: VARGAS ON PROPOSED ECONOMIC PACKAGE

REFS: LA PAZ 6062 AND PREVIOUS

1. ON OCTOBER 5 AID DIRECTOR, DEPUTY DIRECTOR AND ECONOFF MET TO DISCUSS CURRENT SITUATION WITH WILLY VARGAS, ONE OF "SEVEN WISE MEN" WHO DRAFTED FINANCIAL PACKAGE REPORTED REFTELS. VARGAS SAID PRESIDENT'S TRIP HAD BEEN POSTPONED SO THAT HE COULD SEE HIS GOVERNMENT THROUGH DIFFICULTIES EXPECTED WHEN PACKAGE FINALLY ANNOUNCED. SAID ADVERSE REACTION WAS EXPECTED BE GENERALIZED AND GOB DID NOT FEAR ANY SPECIFIC SECTOR OR GROUP.

2. VARGAS DID ADMIT THAT PRESIDENT BANZER'S ACTION IN FIRING JULIO PRADO, MINSECRETARY OF ECONOMY AND PLANNING, OVER LATTER'S ROLE IN THE \$225 MILLION LOAN FIASCO HAD CONTRIBUTED TO PRESENT POLITICAL DIFFICULTIES, BUT DID NOT EXPECT MNR, OR EVEN PRADO'S YOUTH GROUP, TO DISASSOCIATE ITSELF FROM GOB AS RESULT. VARGAS SAID VICTOR PAZ HAD NOT OPPOSED

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ECONOMIC PACKAGE INITIALLY, BUT WAS NOW BEGINNING TO CRITICIZE

IT. RECALLED HOW PAZ ABANDONED BOLIVIA JUST BEFORE
DEVALUATION OF OCTOBER 27, 1972.

3. VARGAS SAID PACKAGE HAD BEEN TURNED OVER TO MINFIN PINELL
SO THAT HE COULD PRESENT IT TO CABINET AS MINFIN PROPOSAL.
VARGAS SAID HE MIGHT NOT RECOGNIZE PACKAGE WHEN IT IS
PRESENTED OR ENACTED. CONTRARY TO STATEMENTS BY IMF REPS,
VARGAS CLAIMED IMF CONSIDERED PACKAGE SUFFICIENT FOR OBTAINING
NEW STAND-BY. MISSION OFFICERS DID NOT DIRECTLY CONTRADICT
HIM BUT INDICATED SEVERAL TIMES THAT PACKAGE MIGHT HAVE
TO BE SUPPLEMENTED TO OBTAIN STAND-BY. ALSO CONTRARY TO
VARGAS' POSITION AS REPORTED BY IMF REPS, VARGAS SAID ALL
NECESSARY MEASURES SHOULD BE TAKEN NOW, WELL IN ADVANCE
OF ELECTIONS NEXT MAY.

4. VARGAS SAID HE PLANNED SUBMIT TO PRESIDENT DRAFT LAW
WHICH WOULD ESTABLISH "OFFICE OF ECONOMIC COUNSEL" UNDER
PRESIDENCY WHICH WOULD MONITOR IMPLEMENTATION OF PACKAGE
WITH A VIEW TO ENSURING ITS EFFECTIVENESS. ALSO STATED
NEW PROGRAM LOAN ALONG LINES OF PAST TWO PROGRAM LOANS
WAS NECESSITY LEAST EMPLOYMENT DECLINE IN ADVANCE OF
ELECTIONS. AID DIRECTOR RESPONDED THAT CHANCES OF NEW PROGRAM
LOAN WERE PRACTICALLY NIL FOR MANY REASONS, INCLUDING THOSE
HAVING NOTHING TO DO WITH BOLIVIA AND NATURE OF ECONOMIC
PACKAGE UNDER CONSIDERATION. VARGAS REPLIED THAT HE STILL
HOPED TO GO TO WASHINGTON AFTER PACKAGE ADOPTED TO EXPLAIN
IT TO VARIOUS FINANCIAL AGENCIES TO TRY GAIN THEIR SUPPORT.

5. VARGAS SAID ORIGINAL PROPOSAL TO TAKE \$100 MILLION LOAN
THROUGH SWISS BANKS WAS BEING ARRANGED BY A RETIRED COL.
MORGAN. THIS PROPOSAL FAILED, HE SAID, BECAUSE MORGAN FAILED
TO GET MONEY
TOGETHER. CONTRARY TO INFORMATION RECEIVED EARLIER FROM IMF REP,
VARGAS SAID HE BELIEVED THERE WAS SOME EVIDENCE OF LINK
BETWEEN COL. MORGAN AND DAWSON ASSOCIATES. CLAIMED THAT
\$225 MILLION LOAN FIASCO RECURRED BECAUSE THEN MINFIN
BEDREGAL WAS AN INNOCENT AND MINECON/PLAN PRADO INEXPERIENCED.
CLAIMED COPY OF CONTACT HAD NOT BEEN AVAILABLE IN PRESIDENCY
UNTIL AFTER CONTRACT SIGNED.

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6. ECONOFF NOTED THAT DOMINICAN REPUBLIC HAD SUFFERED FROM
MANY OF
STATE ENTERPRISE AND FISCAL DEFICITS SIMILAR TO THOSE BOLIVIA
NOW SUFFERED, BUT THAT PRESIDENT BALAGUER, BY APPLYING
STRINGENT FISCAL MEASURES, HAD MOVED FROM DEFICIT TO STRONG
FISCAL SURPLUS. DOMINICAN ECONOMY GROWING AT MORE THAN 6 PERCENT
PER YEAR OVER LAST SEVERAL YEARS WHILE B/P REMAINED IN GOOD
SHAPE AND CENTRAL GOVERNMENT HAD GENERATED FISCAL SURPLUS

FOR EXTENSIVE INVESTMENT PROGRAM. CONCLUDED BY SAYING VERY
VERY DIFFICULT FOR USG CONTINUE PROVIDE SAVINGS WHEN GOB
NOT PROVIDING ANY SAVINGS FOR INVESTMENT. VARGAS ONLY
REPLIED THAT BOLIVIAN ECONOMY EXPECTED GROW BY EIGHT PERCENT THIS
YEAR AND THAT GOB DID EXPECT REDUCE CENTRAL GOVERNMENT
EMPLOYMENT BY 525 PERSONS IN 12 MONTH PERIOD. SAID PROGRESS
DIFFICULT BECAUSE THOSE CHARGED WITH IMPLEMENTATION
TRYING TO PROTECT THEIR RELATIVES AND FRIENDS.
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